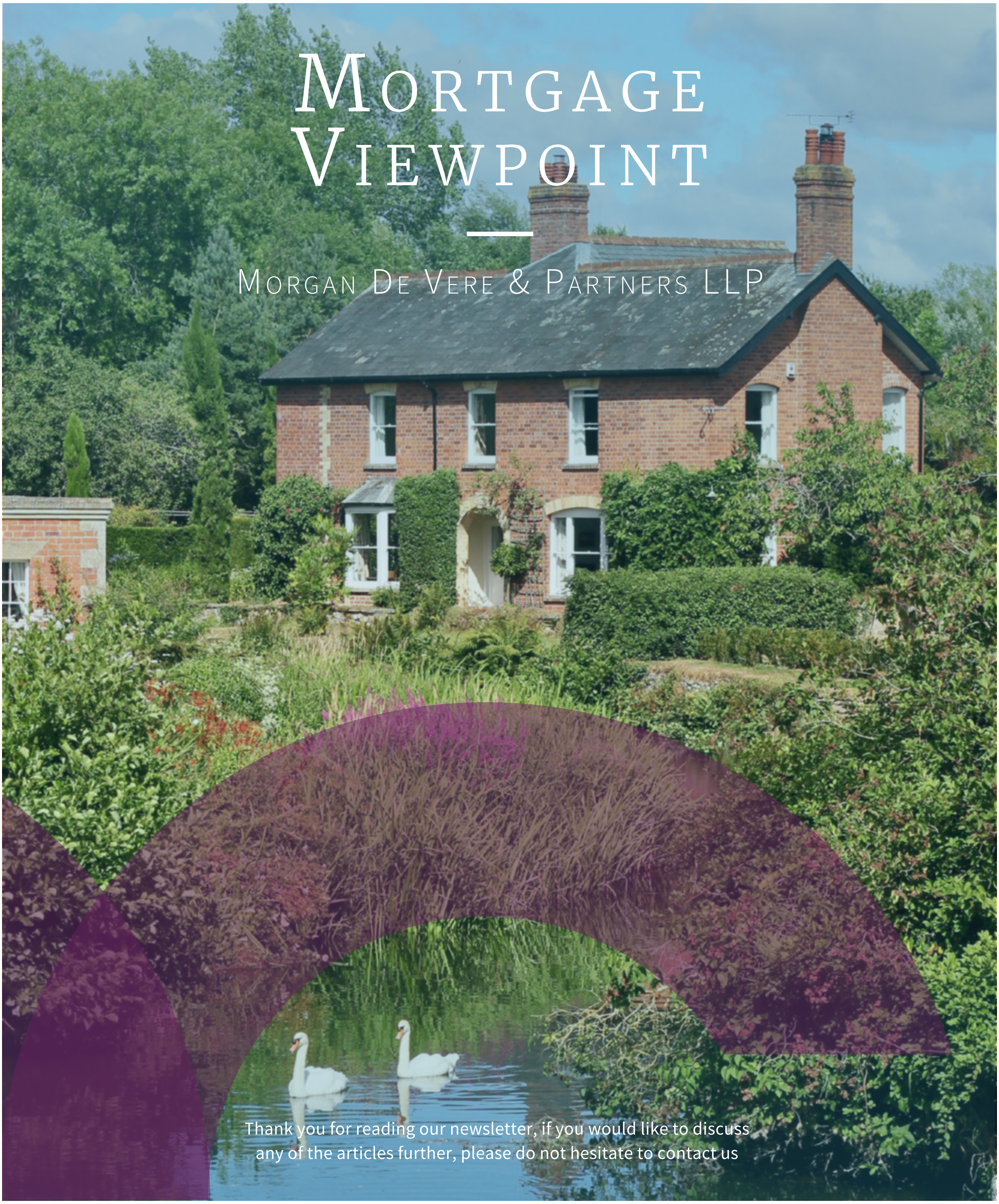
Mortgage Viewpoint

Morgan De Vere & Partners LLP



Thank you for reading our newsletter, if you would like to discuss any of the articles further, please do not hesitate to contact us

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How does the mortgage market work?

There are times in our lives when we can all use some help and guidance. Buying a home is one of those major steps that is much easier to take if you are well-informed and get some good advice. Whether you are a first-time buyer or someone who has moved before, things change, so it's useful to understand the mortgage market.

Each year, thousands of consumers finance the purchase of their homes with a mortgage or re-finance existing mortgages. With mortgage debt accounting for over 80% of total UK household liabilities, finding a suitable mortgage is an important financial decision. Most mortgages in the UK are provided by building societies, banks and specialised mortgage corporations. There are currently around 200 different financial institutions offering mortgages in Britain. The mortgage market is very competitive, with a wide range of products and rates available, making it challenging to understand what is on offer.

Change in the market

The mortgage market is continually evolving to meet the needs of a changing customer base, with new developments in intergenerational lending, lending into and in retirement, buy-to-let mortgages and support for first-time buyers. Over the last 15 years the UK mortgage market has journeyed through some key changes and seen many new regulatory requirements, as a result of the Mortgage Market Review and the implementation of the Mortgage Credit Directive.

Who does what?

The professional conduct of mortgage providers is regulated by the Financial Conduct Authority (FCA). There are strict rules and guidelines, to protect the consumer. Regulations set out in the FCA Mortgage Market Review (2014) aim to crack down on poor lending services by building societies and banks, with requirements outlined for stricter affordability checks, amongst other revisions.

The Bank of England sets the interest rate, which impacts mortgage repayments and it is also responsible for ensuring banks are able to meet potential losses on their mortgage lending, meaning you can save and borrow money safely. The Prudential Regulation Authority determines the amount of money that lenders need to hold and that they have sufficient risk controls.

New challenges

In light of the COVID-19 pandemic, in March the FCA published ***'Mortgages and coronavirus: our guidance for firms'***. Advisers are working hard to stay informed about what is available from the government, so they can provide this guidance to their clients. In such a fast-changing environment, many lenders have responded by withdrawing deals from the market, mostly those in the higher loan-to-value range.

We're here to help

We are responsible for advising you on a suitable mortgage for your circumstances, whether you're moving up the ladder, looking to downsize, purchasing another property or remortgaging, please get in touch. We are specialists with in-depth knowledge of the market and are able to look at a whole range of mortgage products. Getting a mortgage is one of the biggest financial decisions you will make, so it's important to get it right.

YOUR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

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Mortgage rates are now at record low levels, following two Bank of England rate cuts in March to bring the base rate down to 0.1%.

Borrowers on a tracker, discounted or variable rate mortgage may have already benefited from this rate drop, but those borrowers whose mortgage deal is nearing its end, or those currently on an uncompetitive standard variable rate (SVR), should review their situation as there are some very competitive products on the market, with potential savings to be had.

Remortgaging explained

A remortgage is where you take out a new mortgage on a property you already own - either to replace your existing mortgage, or to borrow more money against your property. You should consider remortgaging if:

- Your current deal is about to end
- You are looking for a better rate
- You want to overpay, but can't do this on your current mortgage
- You want to borrow more
- Your home has increased in value and your loan-to-value ratio means you can get a better deal.

Lenders have adapted

Due to uncertainty, many lenders initially reacted to the coronavirus crisis by restricting the products available, (particularly to those borrowers with a high loan-to value ratio) and remortgage applications faced operational constraints such as an inability to do physical valuations. However, optimism has started to return, with lenders reintroducing a wider range of products and adjusting their processes to overcome problems, for example by using automated 'drive-by' valuations.

Don't delay

In such a fast-changing environment, those who are considering remortgaging over the next few months would be well advised to assess their options now. Remortgaging can take around eight weeks, so it's best to set the wheels in motion sooner rather than later.

Advice is essential

There are pros and cons to remortgaging and it won't be right for everyone. The market is more complex right now and getting good advice is vital. We have expert insight and knowledge of the market. As well giving you advice on whether a remortgage is suitable, we will explain the costs, outline potential implications and guide you through the mechanics of remortgaging.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

Protect yourself and your family in 2020

While most of us don't go through life expecting something bad to happen, the truth is that we never know what's around the corner. Why not make 2020 the year you put plans in place to safeguard yourself, your family and your home, so that you know you're protected against life's unexpected events?

When to take out protection cover

Most people look into buying a Life Insurance, Critical Illness or Income Protection policy following a significant life event: buying a home, getting married or having children.

Before taking out a policy, however, be sure to check if any protection cover is included in your workplace benefits, as your employer may already be providing cover.

Review your policies regularly

If you don't review and update your policies on a regular basis, you could find yourself underinsured. If you upsize and your mortgage increases, for example, your current policy might not pay out enough to cover your new monthly repayment. In fact, a huge 73% of people aren't sure they have the right level of protection cover. By ensuring you regularly review your cover, you can make sure you're not in this situation.

Reduce stress, both now and in the future

Do you worry about your income and how you and your family would cope if anything happened to you? Are you ever concerned that you might struggle to keep a roof over your head? One way to rid yourself of these niggling worries is to take out protection cover. With only 44% of 18 to 35-year-olds saying they could cope for more than three months on their savings if they lost their income due to illness or injury, it's more essential than ever to plan for these eventualities.

It's not just about life insurance

Protection cover isn't just there to pay out to your family when you die. You can also take out serious or critical illness cover, as well as policies that pay out if you get injured or made redundant. With rent or a mortgage, household bills and other expenses, imagine how much stress could be alleviated if you have a steady income from an insurance policy while you're unable to work.

It won't happen to me...

This is an assumption many of us are guilty of making; however, latest government figures for 2018 show that one in twenty-five employed people had a spell of long-term sickness absence. It might not happen to you – but if it does, having cover could make the world of difference.

Is joint life cover best for couples?

If you want to help make sure your loved ones will have financial security if you pass away, life insurance cover is the answer. But, if you're part of a couple and you both need cover, should you take out single policies, or a joint policy that covers both of you?

With a single life policy, the insurer would pay out on the death of the policyholder and the policy would then lapse. With joint life insurance, however, the cover will apply to both policyholders and would pay-out either on the first or second death, depending on how the policy is set up.

Before you decide whether to take out single or joint life insurance policies, you'll need to decide what type of cover you need, and this will depend on your circumstances:

- **Term Assurance:** pays out a lump sum if you die within the agreed 'term' (ie. the amount of time you've chosen to be covered for). Term Assurance is typically taken out to protect a mortgage and, as such, can come with a level, or decreasing, sum assured - the latter reducing as you pay off our mortgage.
- **Whole of Life Insurance:** pays out a lump sum when you die, whenever that is - as long as you're still paying the premiums.
- **Family Income Benefit Insurance**: pays out a regular income, instead of a lump sum, to provide ongoing financial support for those who depend on you.

You could also add critical illness cover to your life insurance policy, which means you'll get a pay-out if you're diagnosed with a serious illness and your claim is accepted. The type of conditions covered can include cancer, heart attack and stroke and will depend on the insurance provider.

Weighing up the benefits
Once you've agreed on the right type of cover, there are a number of other factors to consider to determine whether single, or joint life cover is best for you and your other half, including:

- **Cost:** a joint life policy may be less expensive than two single life policies. Level of cover - if your partner earns more than you you might want them to have a higher level of cover, since the financial impact of their death would be greater than yours. In this respect two policies may be better as they will have different sums assured.
- **Existing cover:** either, or both of you may have existing life cover through your employer, or an existing plan. It's important to check what's already in place so that you have a true picture of your protection shortfall. You don't want to pay for something that's already covered.
- **Your relationship:** It's not necessarily something you want to think about but some insurers include a separation benefit. This means if your relationship breaks down during the policy term, you could cancel it and start two individual policies without having to provide additional medical information.

If you're not sure whether single or joint life cover is best for you, or you'd like to review your existing cover, please get in touch.